

Message Text

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ACTION EUR-25

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E.O. 11652: N/A

TAGS: EFIN, HU

SUBJECT: AMBASSADOR'S CALL ON PRESIDENT OF HUNGARIAN

NATIONAL BANK ANDOR LASZLO

1. BEGIN SUMMARY. I PAID COURTESY CALL ON PRESIDENT LASZLO OF NATIONAL BANK YESTERDAY AND TOOK OPPORTUNITY TO DISCUSS HIS RECENT TRIP TO US, PLANS FOR FINANCING OF INCREASED IMPORTS FROM US, WHETHER HE FORESAW AMERICAN BANKS ESTABLISHING PERMANENT REPRESENTATION HERE, AND CONVERTIBILITY OF RUBLE. LASZLO WAS QUITE CONVOLUTED, OBLIQUE AND OFTEN UNRESPONSIVE, THOUGH FRIENDLY, THROUGHOUT A 75-MINUTE SESSION. HE DID INDICATE STRONG (LONG RUN) HUNGARIAN INTEREST IN A "TRULY WORLDWIDE" MONETARY SYSTEM AND DISCUSSED EX-IM BANK CREDITS IN TERMS WHICH INDICATED CLEAR INTEREST. END SUMMARY.

2. LASZLO SAID HIS SEPTEMBER TRIP TO THE US HAD BEEN A MOST PLEASANT AND PRODUCTIVE ONE, WHICH HAD GIVEN HIM THE OPPORTUNITY TO REVIEW MANY ACQUAINTANCESHIPS AND TO VISIT LARGE NUMBER OF BANKS IN NEW YORK, WASHINGTON, SAN FRANCISCO AND HOUSTON. HE HAD FOUND A CONSIDERABLE INTEREST IN AND AWARENESS OF HUNGARY AMONG THE AMERICAN BANKING COMMUNITY,

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AND WAS OBVIOUSLY PLEASED WITH HIS RECEPTION. I ASKED WHETHER

HE ENCOUNTERED ANY INTEREST FROM AMERICAN BANKS IN OPENING OFFICES IN BUDAPEST. LASZLO SAID NO AND EXPOUNDED IN SOME DETAIL ADVANTAGES OF THIS SINGLE SYSTEM OF BANKING. HE THEN ADDED, HOWEVER, THAT FOLLOWING THE CONCLUSION OF A TRADE AGREEMENT AMERICAN BANKS WOULD BE ABLE TO HAVE PERMANENT OFFICES HERE. HE DID NOT EXPLAIN THE DIFFERENCES HE HAD IN MIND BUT OBVIOUSLY MEANT A CAPABILITY TO PERFORM LIMITED SERVICES.

3. AS WITH ALL OFFICIALS I HAVE MET, LASZLO WAS OPTIMISTIC ON PROSPECTS FOR HUNGARIAN-AMERICAN TRADE AND COOPERATION. I NOTED INCREASED TRADE WOULD ENLARGE THEIR DOLLAR DEFICITS WITH US AND ASKED WHETHER THEY SOUGHT TO ACHIEVE AN OVERALL BALANCE IN ALL ACCOUNTS -- E.E. FINANCING PURCHASES IN THE WEST THROUGH SALES IN THE EAST, OR WHETHER THEY TRIED TO BALANCE THEIR WESTERN ACCOUNTS SEPARATELY. LASZLO EVADED THE MATTER BY SAYING THEY DID NOT THINK OF IT THIS WAY. IN LONG RUN THEIR TRADE NEEDED TO HAVE SOME KIND OF EQUILIBRIUM. IN SHORT TO MEDIUM RUN THEY WERE PREPARED TO HAVE DEFICIT IF THEY COULD BE SURE THAT FUTURE PRODUCTION FROM CURRENT PURCHASES WOULD PAY IT BACK. ON ADVANTAGE OF THEIR SYSTEM (AS COMPARED WITH YUGOSLAVIA HE ADDED) WAS THAT THEY COULD KEEP THEIR EXCHANGE RELATIONS UNDER CONTROL. HE NOTED THEY (AND OTHER SOCIALIST COUNTRIES) NEVER HAD TROUBLE PAYING THEIR OBLIGATIONS. IN RESPONSE TO QUERIES ON HOW HUNGARY PLANNED FINANCING OF PURCHASES FROM US AND ON WHETHER EX-IM WAS DISCUSSED IN WASHINGTON, HE REPLIED THAT HUNGARY AS SMALL COUNTRY MUST BE CONSERVATIVE AND MAKE CONTINUING EFFORT TO MAINTAIN HER GOOD CREDIT RATING, AND THAT HE FORESAW NO FINANCIAL PROBLEMS. LASZLO SAID HE HAD HAD MEETING WITH EX-IM PRESIDENT KEARNS AND OTHER EX-IM PEOPLE WHILE IN WASHINGTON. SAID HE HAD PREVIOUSLY BEEN TOLD EX-IM WAS LINKED TO BOND SETTLEMENT BUT THAT THEY HAD INFORMED HIM THAT WITH SETTLEMENT OF CLAIMS AGREEMENT NO LEGAL OBSTACLES TO EXTENSION OF EX-IM BANK FINANCING TO HUNGARY REMAINED AND MATTER WAS ONE ONLY OF USG DECISION. OF COURSE THERE WAS BONDHOLDERS PROBLEM BUT BONDHOLDERS ISSUE WAS A PRIVATE ONE. LASZLO REMARKED THAT GOH WAS IN TOUCH WITH AND WAS PREPARED TO SETTLE WITH BONDHOLDERS BUT THAT THEY COULD LIMITED OFFICIAL USE

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NOT GO BEYOND TERMS CONCLUDED WITH BRITISH BONDHOLDERS. HE CLAIMED WITH SOME ASPERITY THAT ONLY 30 PERCENT OF THE BONDS WERE AMERICAN-OWNED AND THAT PRIVATE BONDHOLDERS IN OTHER COUNTRIES WERE SEEKING TO SETTLE THEIR CLAIMS WITH HUNGARY THROUGH THIS METHOD WITHOUT HUNGARIAN AGREEMENT.

4. UPON QUERY ABOUT HOW MUCH OF THEIR RUBLE TRADE WAS CONVERTIBLE, LASZLO LAUNCHED AN EXTENDED DISCUSSION ABOUT

THE NEED TO ESTABLISH A TRULY WORLD MONITARY SYSTEM (I.E. INCLUDING THE SOVIET UNION), (DURING WHICH HE DID NOT REFER EITHER TO IMF OR IBRD). LASZLO SAID THIS WAS A DEVELOPMENT WHICH HUNGARY WOULD REALLY WELCOME AND WAS WORKING TO ACHIEVE. HE ADDED THAT, OF COURSE, THIS WAS A DECISION WHICH MUST BE DISCUSSED AND TAKEN AT THE "HIGHEST POLITICAL LEVEL." HIS RECENT IMPRESSION FROM US WAS THAT WE WERE NOT REALLY INTERESTED. DURING VISIT TO MOSCOW IN MAY HE HAD BEEN DISAPPOINTED TO FIND IT HAD NOT REALLY BEEN A SUBJECT OF DISCUSSION. (HE MADE IT CLEAR INDIRECTLY BUT DEFINITELY THAT THIS WOULD BE A US-SOVIET DECISION BUT ALSO THAT IT WAS ONE WHICH HE WOULD LIKE TO SEE HAPPEN). LASZLO ALSO SAID THAT AGREEMENT HAD ALREADY BEEN REACHED IN PRINCIPLE FOR RUBLE TO BECOME CONVIRTIBLE AT A FUTURE (NOT YET DEFINED) DATE.

WE ASSUME HE MEANT FULL CONVERTIBILITY WITHIN CEMA BUT HE DID NOT SAY SO EXPLICITLY. HE SAID THAT ALTHOUGH HURDLES REMAINED HE HOPED THIS WOULD BE A REALITY IN "NOT TOO DISTANT FUTURE".

5. WE WOULD APPRECIATE RECEIVING REPORT ON MEETINGS OF LASZLO AND OTHERS IN US, INCLUDING FEDERAL RESERVE, EX-IM AND PRIVATE BANKS. AMBASSADOR WILL BE MAKING ANOTHER CALL ON FEKETE SOON, AND IF THERE ARE ANY PARTICULAR QUESTIONS IT WOULD BE WORTH EXPLORING WE WILL TRY TO DO SO.

6. GOOD PART OF MEETING WAS TAKEN UP WITH LENGTHY DISCUSSION OF ADVANTAGES OF THEIR BANKING SYSTEM. LASZLO GOT REALLY INTERESTED WHEN HE HAD CHANCE TO DISCUSS WORLD ECONOMIC SYSTEM AND WENT INTO SOME DETAIL ON EX-IM, MAKING US CONCLUDE THEY ARE MORE INTERESTED THAN THEY USUALLY LIMITED OFFICIAL USE

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